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- ✧ January 10 – FIAR ODO Subcommittee Meets
- ✧ January 15 – FIAR Service Providers Working Group Meets
- ✧ January 22 – FIAR Governance Board Meets

#### Connect

- ✧ Join the FIAR Group on milBook at the CAC-enabled site <https://www.milSuite.mil/book/groups/fiar>
- ✧ Visit the FIAR Directorate's website for links to FIAR Guidance and other tools, including past issues of Defense Audit Readiness News
- ✧ Become a FIAR Planning Tool user by emailing [FIARSupport@osd.mil](mailto:FIARSupport@osd.mil)

*Happy New Year! With a new year comes new beginnings, and the Defense Audit Readiness News is no different. The new layout includes an expanded quick reference box to the left, and small changes to the look and layout. A new section, "From the Inbox," highlights readers' comments. I encourage you to let us know how we are doing and where we might have hit – or missed – the mark, when it comes to providing you with information that you can put to use. The recurring feature "Snapshot" shows how far we've come on our interim milestones, and how much we still have to go. And "Simply Put" continues to be a fun challenge played out each month in the FIAR Group on milBook.*

*Our commitment to giving you tools and best practices to help you in your audit readiness efforts remains steadfast. I hope you continue to find this newsletter a useful and interesting resource. Thank you for a great 2012 and best wishes for 2013.*

*Mark Easton, Deputy Chief Financial Officer*

#### ✧ **The AFR: More than the Sum of its Parts**

Each November, the Department fulfills its statutory responsibility by issuing the Agency Financial Report, or AFR. The AFR includes the DoD financial statements and explanatory notes—plus a whole lot more. A handy reference document, the AFR tells the story of how the Department puts its resources to work to meet its mission and advance national interests. It's not unlike an annual mutual fund report, except in this case, the AFR reports on how taxpayer investments in Defense have been used.

Produced by the OUSD(C), Carol Phillips, who manages the AFR, is quick to add that "many individuals from offices across the Department are directly involved in developing the AFR. Employees working in Department areas as wide ranging as Programs, Policy, Joint Staff, Performance, Information Systems, Human Resources, Budget, Auditing, Financial Management and Accounting all contribute to the report, and our DFAS team compiles the statements." (Continued on Page 2.)

### ❖ Did You Know?

A 2011 best practices report by the Accounting and Auditing Policy Committee of the Federal Accounting Standards Advisory Board recognized DoD's presentation of the Management's Discussion and Analysis section of the AFR. Three sections were each cited as an example of a best practice:

- Overview
- Mission and Organization
- Performance Goals, Objectives, and Results

Although the Department is not eligible for an Association of Government Accountants' Certification of Excellence in Accountability Reporting award, the best practices report suggests we're on the right track.

Information from these differing fields gets rolled into one cohesive story of the Department's operations, financial performance, and expectations for the future. "Although the statements are not yet auditable, and much of the content is mandated," Phillips said, "the AFR contains a lot of good information that people may not know about."

**High-Level Overview of FY 2012** – The AFR starts with introductions from Deputy Secretary of Defense Carter and Under Secretary of Defense (Comptroller) Hale. A concise overview of how the Department used \$646 billion in FY 2012 appropriations in support of DoD's mission follows. Operations in Afghanistan, Libya, and Iraq are discussed, as well as the Department's strategy and activities.

**Quick Reference Guide** – Keep the AFR bookmarked for a quick overview of DoD's history and structure. A map of the Combatant Commands, FY 2012 staffing levels, and a list of internal control weaknesses are some of the diverse information provided. There's even a list of

useful websites, which, if you're viewing the AFR online, hyperlink to exactly where you need to go.

**Performance Results** – The AFR also reports on some key Department performance measures. Results toward achieving DoD strategic goals are included, along with easy to follow charts showing progress made over the fiscal year. Objectives measure many areas, such as acquisition, logistic support to forces abroad, and care of wounded warriors. You can read the results of all DoD performance measures in the DoD Agency Performance Report, published within the Department's annual budget submission.

**Examples of Money Saved** – The AFR reports an estimated \$19.8 billion was saved in FY 2012. Examples include eliminated redundancies and reassigning critical functions, such as the elimination of the Business Transformation Agency, and fuel saving initiatives launched by the Air Force. Additionally, corrective action plans for internal control weaknesses, and the main reasons for improper payments and the actions you can take to reduce these errors are detailed.

To download the AFR for years 2002 through 2012, go to <http://comptroller.defense.gov/afr/fy2012.html>. Additionally, OMB requires the Military Departments, the Medicare-Eligible Retiree Health Care Fund, and the Military Retirement Fund to produce their own Agency Financial Reports at the end of each fiscal year. To see these reports, as well as other Component financial statements, go to <http://comptroller.defense.gov/cfs/fy2012.html>.

## ❖ Snapshot

Each Military Department has committed to interim milestones for achieving audit readiness for each major element or business process for the statement of budgetary resources, such as civilian pay or contracts, and for addressing the existence and completeness of each major category of assets, such as military equipment or real property. The chart below gives a snapshot of the interim milestones on which the Services have successfully asserted audit readiness and how many remain.

Military Department	Completed As Of 1/31/2012	Completed As Of 11/30/2012	Completed As Of 12/31/2012	Future	Total
	Statement of Budgetary Resources				
Army	2	3	3	1	4
Navy	2	4	4	8	12
Air Force	4	6	6	9	15
	Mission Critical Asset Existence and Completeness				
Army	0	1	1	8	9
Navy	1	4	4	11	15
Air Force	3	5	5	8	13

Completed: milestones completed and approved by OUSD(C) (i.e., not returned for additional work).

Future: milestones to be completed in the future.

Total: total milestones to achieve auditability.

## ❖ A Lesson Learned: Bulk Obligations

Components must reconcile bulk obligations to actual costs and expenditures more regularly and verify the remaining obligation is still valid.

In Other Words: Bulk obligations are a way of recording the estimated total obligation for a group of like business events (e.g. PCS or TDY travel). For example, one might estimate that TDY travel averages \$2,500 per trip and anticipate 100 trips will be taken during the year. Therefore, a bulk obligation would be recorded for \$250,000.

The Problem Is: Unless we regularly check to see how much remains and what portion is still valid, we can't resource our operations effectively and efficiently.

What that Means: Auditors will look to see that the amount of funds obligated but not expended is correct. If we haven't reconciled it, the auditor could see expenditures in excess of obligations or see a "stale obligation" that is not supported by a legitimate requirement. *(Continued on Page 4.)*

What that Means to Your Mission or Program: If you don't reconcile bulk obligations to expenditures, you risk leaving money on the table—money that could go to support your mission or money that could be reprogrammed for other mission-critical work.

Bottom Line: Reconcile your bulk obligations and expenditures regularly, but not less than three times a year, to ensure you know how much remains and whether it is still supported by a legitimate requirement.

### ✧ Simply Put

Here's a common financial management term put in words everyone can understand:

Universe of Transactions: The individual accounting transactions, sometimes from multiple systems, that when added together equal the total account balance.

### ✧ From the Inbox

In response to the December 2012 article "A Lesson Learned: One-Off Transactions," Bill Howell at the Naval Meteorology and Oceanography Command at Stennis Space Center, Miss. writes:

*"Once again, this month's Defense Audit Readiness News provides salient information in our move forward to audit readiness and success. However, I feel we missed an opportunity with the "One-Off" Transactions. Many times one-off transactions are mere legacy practices where individuals refuse to embrace standardized and automated processes. For example, DON uses SLDCADA for T&A, which can be decentralized to the desktop level, eliminating thousands of pieces of paper to support an employee's T&A record. However, many still harbor the old days where we needed a timesheet, leave request, OT request, etc., which can all be accomplished electronically and maintained through this electronic repository. The continuance of this paper process weakens our ability to be successful. [Defense Audit Readiness News] had an opportunity to reemphasize the opportunity to leverage our existing automated systems. These systems promote stronger internal controls, and save valuable time, effort, resources, and space. Manual timekeeping should be a rare exception. Hopefully in a future edition, we can remind folks to fully leverage and take advantage of these systems."*

Great point, Bill! We couldn't agree more. We need to make these small process changes in many areas to achieve our goals. Thanks for the feedback. – The Editors

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